



PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY

AUDIT COMMITTEE

March 26, 1996

MEMORANDUM FOR MEMBERS OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

FROM : Thomas R. Bloom
Inspector General

SUBJECT : Quality of Non-Federal Audits for the Six-Month
Period Ended September 30, 1995

This is the PCIE's semiannual non-Federal audit quality report for the period ended September 30, 1995. This report provides the results of Inspectors General's (IG) desk reviews (DRs) and quality control reviews (QCRs) of audits of Federal activities performed by independent public accountants (IPAs) and State/Local auditors. The report contains information and data on audit quality, monetary findings, and sanctions taken against auditors who performed deficient work. Fourteen IGs reported non-Federal audit activities during this reporting period.

We have also included a new chart, showing the results of OIG QCRs on an annual basis since we began reporting this data. Except for A-133 audits, this chart shows substantial improvement in the results of QCRs in 1995 over previous years. (See Attachment 5 for details.)

RESULTS OF DESK AND QUALITY CONTROL REVIEWS

The table below shows the results of the DRs and QCRs performed by 14 IG offices during this period (See Attachments 1 through 4 for details).

	<u>DRs</u>	<u>%</u>	<u>QCRs</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Reports issued without changes or with minor changes. ¹	3395	90.5%	151	73.3%	3546	89.6%
Reports issued with major changes. ²	24	0.6%	24	11.7%	48	1.2%
Reports with significant inadequacies. ³	332	8.9%	31	15.0%	363	9.2%
Totals	<u>3751</u>	<u>100.0%</u>	<u>206</u>	<u>100.0%</u>	<u>3957</u>	<u>100.0%</u>

AUDIT QUALITY

A-128 Reports

The results of reviews of A-128 reports are shown in Attachment 2. Desk reviews alone continue to disclose very few problem reports (10 of 1061 or 0.9%). The results of QCRs⁴ on A-128 reports show significant improvement. This period, 89.2% of audits conducted by IPAs that were subject to QCRs were considered to be acceptable, compared to 42.9% last period. One hundred percent (100%) of the audits conducted by state/local auditors subject to QCR were found to be acceptable. This was an improvement from last period when the acceptability rate dropped to 71.4%, after several years at the 100% level.

A-133 Reports

The quality of A-133 audit reports has declined. As illustrated in Attachment 3, 84.8% of the A-133 audit reports prepared by IPAs that were desk reviewed this period were issued without major changes. Of the 124 QCRs performed on A-133 audit reports prepared by IPAs, 45 (36.3%) were found to require major changes or were significantly inadequate. This represents a decline in quality from the 3.7% reported in the prior report, when only 27 QCR were reported to be performed. There was minimal review activity of A-133 audits conducted by State/local auditors.

Other Nonfederal Audits⁵

The quality of "other" audits appears to be improving. As illustrated in Attachment 4, 83.3% of the "other" audit reports prepared by IPAs that were subject to QCRs were found to be acceptable. This is an improvement over the 68.6% found to be acceptable over the last two periods.⁶ The quality of audits by IPAs subject to desk review only declined somewhat from 96.1% last period to 92.0% this period.

Problems found

The problems found with A-128 and A-133 audits include:

- a) Inadequate or missing internal control report
- b) Inadequate or missing compliance reports
- c) Inadequate or missing findings
- d) Improper or missing opinions
- e) Inadequate working paper documentation to support the audit
- g) Lack of or incomplete financial statements

The problems identified with "other" audits include inadequate internal control reports, missing financial statements and inadequate working paper documentation to support the audit.

SANCTIONS

One of the 14 IGs reported that they referred a total of 14 public accountants to the appropriate State regulatory board or American Institute of Certified Public Accountants (AICPA) for violations of generally accepted government auditing standards.

State Boards or the AICPA took disciplinary action on one CPA that was referred in previous periods. In this case, the CPA was required to take extra hours of continuing professional education (CPE).

MONETARY FINDINGS IN NON-FEDERAL AUDITS

Below are statistics covering unsupported costs and other costs questioned in non-Federal audits (See Attachment 6 for details). Amounts sustained by program officials this period are presented as disallowed costs. These are costs for which management made decisions this period. Most of the costs would have been originally questioned in prior periods.

(Dollars in Millions)

Unsupported costs⁷	\$ 52.2
Other questioned costs⁸	<u>83.5</u>
Total questioned costs	<u>\$135.7</u>
Total disallowed costs	<u>\$ 16.8</u>

If you have any questions or comments concerning the information presented in this report, please contact me or George Rippey of my staff. We can be reached on (202) 205-5439 and (202) 205-8798, respectively.

Attachments

Endnotes

1. These reports required no changes or minor correction in order to be acceptable.
2. These reports required major changes to the audit report and/or correction of deficient substandard audit work. These errors do not render the audit report unusable.
3. These audit reports are received with deficiencies so great that users cannot rely on them. The reports are acceptable only after substantial revisions.
4. A portion of the QCRs are selected based on judgmental factors such as funding level of the auditee, risk analysis, or perceived problems by the desk reviewer. Therefore, a straight projection to the full audit universe should not be made.
5. Four of the fourteen IGs reporting this period included other non-Federal audit activity. Of these, two had significant activity (HHS and ED). The types of programs audited included the following:
 - HHS - Grants for the Head Start program, Runaway Youth, Office of Community Services, Community Health Centers, and various Public Health Service Funds.
 - ED - Student Financial Assistance Programs.
6. We used the last two periods to compare this period's performance against because there was only one QCR of an "other" audit last period.
7. This amount represents expenditures or uses of funds for which the auditor was unable to determine conformance with applicable requirements due to the auditee's failure to maintain adequate documentation.
8. Other questioned costs are expenditures or uses of funds which the auditor, after reviewing available documents, concludes were not made in accordance with applicable legal requirements.

**RESULTS OF REVIEWS OF ALL NON-FEDERAL AUDITS
FOR THE SIX MONTHS ENDED
September 30, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of All QCRs:				
QCRs on All Audits	151	24	31	206
% to total	73.3%	11.7%	15.0%	100.0%
QCRs on Audits Conducted By IPAs	142	24	31	197
% to total	72.1%	12.2%	15.7%	100.0%
QCRs on Audits Conducted By State/Local Auditors	9	0	0	9
% to total	100.0%	0.0%	0.0%	100.0%
Analysis of All Desk Reviews:				
Desk Reviews on All Audits	3,395	24	332	3,751
% to total	90.5%	0.6%	8.9%	100.0%
Desk Reviews on Audits Conducted By IPAs	3,154	24	330	3,508
% to total	89.9%	0.7%	9.4%	100.0%
Desk Reviews on Audits Conducted By State/Local Auditors	241	0	2	243
% to total	99.2%	0.0%	0.8%	100.0%

**RESULTS OF REVIEWS OF A-128 AUDITS
FOR THE SIX MONTHS ENDED
September 30, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of A-128 Audit QCRs:				
QCRs on All A-128 Audits	42	3	1	46
% to total	91.3%	6.5%	2.2%	100.0%
QCRs on A-128 Audits Conducted By IPAs	33	3	1	37
% to total	89.2%	8.1%	2.7%	100.0%
QCRs on A-128 Audits Conducted By State/Local Auditors	9	0	0	9
% to total	100.0%	0.0%	0.0%	100.0%
Analysis of A-128 Audit Desk Reviews:				
Desk Reviews on A-128 Audits	1,051	6	4	1,061
% to total	99.1%	0.6%	0.3%	100.0%
Desk Reviews on A-128 Audits Conducted By IPAs	885	6	4	895
% to total	98.9%	0.7%	0.4%	100.0%
Desk Reviews on A-128 Audits Conducted By State/Local Auditors	166	0	0	166
% to total	100.0%	0.0%	0.0%	100.0%

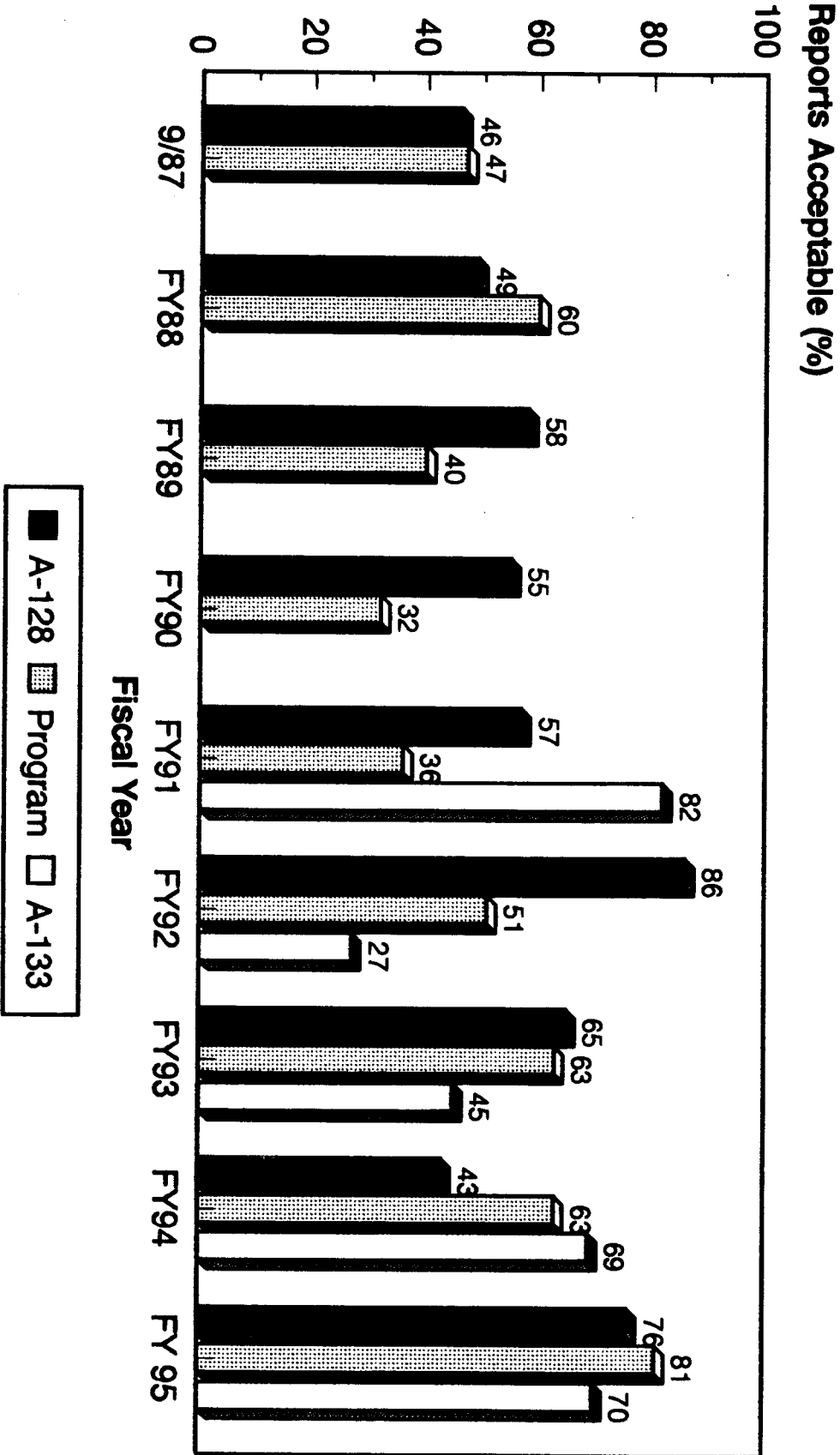
**RESULTS OF REVIEWS OF A-133 AUDITS
FOR THE SIX MONTHS ENDED
September 30, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of A-133 QCRs:				
QCRs on All A-133 Audits	79	21	24	124
% to total	63.7%	16.9%	19.4%	100.0%
QCRs on A-133 Audits Conducted By IPAs	79	21	24	124
% to total	63.7%	16.9%	19.4%	100.0%
QCRs on A-133 Audits Conducted By State/Local Auditors	0	0	0	0
% to total	0.0%	0.0%	0.0%	0.0%
Analysis of A-133 Desk Reviews:				
Desk Reviews on All A-133 Audits	1,614	8	279	1,901
% to total	84.9%	0.4%	14.7%	100.0%
Desk Reviews on A-133 Audits Conducted By IPAs	1,601	8	278	1,887
% to total	84.8%	0.4%	14.8%	100.0%
Desk Reviews on A-133 Audits Conducted By State/Local Auditors	13	0	1	14
% to total	92.9%	0.0%	7.1%	100.0%

**RESULTS OF REVIEWS OF OTHER AUDITS
FOR THE SIX MONTHS ENDED
September 30, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of Other QCRs:				
QCRs on All Other Audits	30	0	6	36
% to total	83.3%	0.0%	16.7%	100.0%
QCRs on Other Audits Conducted By IPAs	30	0	6	36
% to total	83.3%	0.0%	16.7%	100.0%
QCRs on Other Audits Conducted By State/Local Auditors	0	0	0	0
% to total	0.0%	0.0%	0.0%	0.0%
Analysis of Other Desk Reviews:				
Desk Reviews on All Other Audits	730	10	49	789
% to total	92.5%	1.3%	6.2%	100.0%
Desk Reviews on Other Audits Conducted By IPAs	668	10	48	726
% to total	92.0%	1.4%	6.6%	100.0%
Desk Reviews on Other Audits Conducted By State/Local Auditors	62	0	1	63
% to total	98.4%	0.0%	1.6%	100.0%

Results of OIG Quality Control Reviews



**MONETARY FINDINGS
FOR THE SIX MONTHS ENDED
September 30, 1995
(In Millions of Dollars)**

	A-128			A-133			Other		
	IPA	State & Local	Total	IPA	State & Local	Total	IPA	State & Local	Total
Unsupported costs	\$44.2	\$4.3	\$48.5	\$0.5	\$0.0	\$0.5	\$2.9	\$0.3	\$3.2
Other questioned costs	24.1	49.8	73.9	3.8	0.0	3.8	5.3	0.4	5.7
Total questioned costs	<u>\$68.3</u>	<u>\$54.1</u>	<u>\$122.4</u>	<u>\$4.3</u>	<u>\$0.0</u>	<u>\$4.3</u>	<u>\$8.2</u>	<u>\$0.7</u>	<u>\$8.9</u>
Sustained unsupported	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.2	\$0.3	\$0.3	\$0.6
Sustained other questioned costs	2.5	6.4	8.9	3.5	0.0	3.5	3.4	0.0	3.4
Total disallowed costs	<u>\$2.5</u>	<u>\$6.4</u>	<u>\$8.9</u>	<u>\$3.7</u>	<u>\$0.0</u>	<u>\$3.7</u>	<u>\$3.7</u>	<u>\$0.3</u>	<u>\$4.0</u>

Notes: The unsupported and other questioned costs are from reports processed and issued this semiannual period. The sustained amounts are from reports that management took resolution action on this period.

Any differences between the amounts reported in this schedule and the totals on page 3 are due to rounding.